CROSS-OWNERSHIP

Cross-ownership **describes the phenomena of either companies or large investors owning stakes in other businesses. When these entities operate in the same industry, cross-ownership may change the incentives of firms that are horizontal competitors or firms that are in vertical relationships.**

Even though cross-ownership has been a phenomenon in market economies around the world for centuries, it is a hot topic now for three reasons.[1] First, some studies show that industry concentration has been rising in recent decades, even without taking into account of cross-ownership. Two, major asset management firms like Blackrock, Fidelity, and Vanguard offer index funds that own substantial equity in firms that constitute the S&P 500 and other major stock indices. Three, in settings where technologies are developing quickly, cross ownership and partial ownership are common.

The concern that cross-ownership dulls incentives to compete is straightforward. If managers (agents) act in the interests of all owners (principals), then cross-ownership changes how firms compete against their rivals. Suppose that Lyft takes business away from Uber. Absent cross-ownership, this benefits Lyft's investors. If, however, investors own equity in both companies, they benefit from Lyft's success but are harmed by Uber's loss.

Real-world versions of cross ownership can be found. When Uber exited China in 2016, it took a 20 percent stake in Didi Chuxing. Meanwhile, Didi holds a substantial stake in Lyft,[2] Uber's primary competitor in the US. In the recent years, Fidelity increased holdings in Lyft and Uber, making it the largest institutional investors in Lift[3] and the third largest institutional investor in Uber.[4] Another example: Amazon took a 16 percent stake in Deliveroo, a London-based food delivery company, before its initial public offering on the London Stock Exchange in 2021.[5] Deliveroo's main competitors include are DoorDash and Grubhub, both listed on NYSE. The automobile industry in China and videostreaming in India both feature substantial cross-ownership.

The competitive concerns are not limited to price competition. As digital platforms globalize, payment systems like Brazil's PIX and India's UPI will seek to be integrated into other systems like AliPay. What happens if payment systems take ownership in other systems so that they will be prioritized in terms of integration?

Let's turn to pro-competitive justifications for cross-ownership. Some would say the prospect of selling ownership stakes is essential to entrepreneurial incentives. Start-up firms seek funding from established firms in the industry and from private equity firms that focus much of their

[1] See, for example, Miguel Antón, Florian Ederer, Mireia Giné, and Martin Schmalz, "Common Ownership, Competition, and Top Management Incentives," *Journal of Political Economy,* 2023.
[2] https://www.theinformation.com/briefings/c74263
[3] https://fintel.io/so/us/lyft
[4] https://fintel.io/so/us/uber
[5] https://www.wsj.com/articles/amazon-backed-deliveroo-aims-for-12-billion-in-london-ipo-11616428625

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investments in high tech firms. Capital from those established firms fuels the innovation process and provides opportunities for investors to monitor the progress of the innovators. Amazon, for example, set up a specialized investment fund to take partial ownership positions over 50 start-ups during the period 2016-2012, the main purpose of which was to gain access to technologies that could improve their interactive devices and for their cloud computing business.

Cross-ownership abounds in AI. According to the *Economist*,[6] five top US firms investing in AI --- Alphabet, Apple, Amazon, Meta, and Microsoft have taken stakes in about 200 firms and acquired many others. Of course, these firms, the other members of the "Magnificent Seven" (Nvidia and Tesla), and major Chinese firms are also investing internally in AI research programs.

The most prominent AI-related cross ownership is Microsoft's $10B investment in OpenAI. In January of 2023, Microsoft stated:

> Today, we are announcing the third phase of our long-term partnership with OpenAI through a multiyear, multibillion dollar investment to accelerate AI breakthroughs to ensure these benefits are broadly shared with the world.
> This agreement follows our previous investments in 2019 and 2021. It extends our ongoing collaboration across AI supercomputing and research and enables each of us to independently commercialize the resulting advanced AI technologies.[7]

Amazon likewise made a billion-dollar investment into Anthropic, one of OpenAI's main rivals. In August 2024 that investment became subject of a probe by CMA, Britain's main competition agency.[8]

Along with strengthening entrepreneurial incentives, one can make the case that established firms with substantial capabilities in place *should* leverage leading-edge technologies rather than expect start-ups to replicate their capabilities. An important axiom is that firms considering entry try to anticipate and take into account all possible states of the world. If the states of the world in which established firms are not allowed to invest in start-ups nor are they allowed to acquire start-ups, then it follows that there will be less entry.

Another traditional justification for cross-ownership is that firms will share information, learn from each other, and gain access to each other's resources. Consider, for example, the partnership between fast-fashion eCommerce retailer Shein and Forever 21, which is owned by Sparc Group. Announced in late August 2023, the cross-ownership goes in both directions: (i) Sparc becomes a minority shareholder in Shein, and (ii) Shein gains a one-third stake in Sparc.

How does the Shein – Forever 21 work?

- Forever 21 – a physical retailer – claims that it will learn from Shein's business model, especially its super-fast process of product development and supply chain, and potential access to its eCommerce platform and massive customer base.

[6] "Mastering the Machine," *Economist*, April 1, 2023.
[7] "Microsoft and OpenAI Extend Partnership," Microsoft Corporate Blogs, January 23, 2023.
[8] https://www.wsj.com/tech/amazons-4-billion-investment-in-ai-startup-anthropic-comes-under-u-k-scrutiny-0fe5652e.

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- Shein gets access to Forever 21's brick and mortar retail outlets. Shein, which seeks to avoid being labeled a Chinese company, solidifies its identity as a global eCommerce retailer in 150 countries.[9]

In sum there is a mix of competitive concerns and possible justifications for cross ownership. Given the energized competition authorities around the world, we can expect that regulators will scrutinize cross-ownership and the likelihood of changes in competition policies is substantial.

[9] Shein launched in China, is now headquartered in Singapore, and manufactures its products in China. See *Squawk on the Street*, CNBC August 24, 2023.

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